

DYNAMIC MATERIALS CORP
Form 10-Q
August 02, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____ .

Commission file number 001-14775

DYNAMIC MATERIALS CORPORATION

(Exact name of Registrant as Specified in its Charter)

Delaware
(State of Incorporation or Organization)

84-0608431
(I.R.S. Employer Identification No.)

5405 Spine Road, Boulder, Colorado 80301

(Address of principal executive offices, including zip code)

(303) 665-5700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 under the Act). Yes No

The number of shares of Common Stock outstanding was 13,353,639 as of August 2, 2011.

Table of Contents

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. In particular, we direct your attention to Part I, Item 1- Condensed Consolidated Financial Statements; Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations; Item 3 - Quantitative and Qualitative Disclosures About Market Risk; and Part II, Item 1A Risk Factors. We intend the forward-looking statements throughout this quarterly report on Form 10-Q and the information incorporated by reference herein to be covered by the safe harbor provisions for forward-looking statements. Statements contained in this report which are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. All projections, guidance and other statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, believe, plan, anticipate, estimate, expect, intend, and other phrases of similar meaning. The forward-looking information is based on information available as of the date of this quarterly report and on numerous assumptions and developments that are not within our control. Although we believe that our expectations as expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Factors that could cause actual results to differ materially include, but are not limited to, the following: changes in global economic conditions; the ability to obtain new contracts at attractive prices; the size and timing of customer orders and shipment; our ability to realize sales from our backlog; fluctuations in customer demand; fluctuations in foreign currencies; competitive factors; the timely completion of contracts; the timing and size of expenditures; the timely receipt of government approvals and permits; the price and availability of metal and other raw material; the adequacy of local labor supplies at our facilities; current or future limits on manufacturing capacity at our various operations; our ability to successfully integrate acquired businesses; the availability and cost of funds; and general economic conditions, both domestic and foreign, impacting our business and the business of the end-market users we serve. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Table of Contents

INDEX

PART I - FINANCIAL INFORMATION

<u>Item 1</u>	<u>Condensed Consolidated Financial Statements</u>	4
	<u>Condensed Consolidated Balance Sheets as of June 30, 2011 (unaudited) and December 31, 2010</u>	4
	<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010 (unaudited)</u>	6
	<u>Condensed Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2011 (unaudited)</u>	7
	<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 (unaudited)</u>	8
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	10
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosure about Market Risk</u>	34
<u>Item 4</u>	<u>Controls and Procedures</u>	34

PART II - OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>	35
<u>Item 1A</u>	<u>Risk Factors</u>	35
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	35
<u>Item 4</u>	<u>[Removed and Reserved]</u>	35
<u>Item 5</u>	<u>Other Information</u>	35
<u>Item 6</u>	<u>Exhibits</u>	35
	<u>Signatures</u>	37

Table of Contents**Part I - FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements**DYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2011 (unaudited)	December 31, 2010
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,613	\$ 4,572
Accounts receivable, net of allowance for doubtful accounts of \$566 and \$378, respectively	34,798	27,567
Inventories	48,903	35,880
Prepaid expenses and other	4,752	3,659
Current deferred tax assets	1,401	1,057
Total current assets	97,467	72,735
PROPERTY, PLANT AND EQUIPMENT	70,277	66,734
Less - accumulated depreciation	(29,445)	(26,928)
Property, plant and equipment, net	40,832	39,806
GOODWILL, net	42,020	39,173
PURCHASED INTANGIBLE ASSETS, net	49,260	48,490
DEFERRED TAX ASSETS	517	248
OTHER ASSETS, net	768	941
TOTAL ASSETS	\$ 230,864	\$ 201,393

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Share and Per Share Data)

	June 30, 2011 (unaudited)	December 31, 2010
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 22,020	\$ 16,109
Accrued expenses	4,163	3,529
Dividend payable	533	529
Accrued income taxes	1,536	477
Accrued employee compensation and benefits	3,969	3,711
Customer advances	3,038	1,531
Lines of credit	8,724	2,621
Current maturities on long-term debt	9,216	9,596
Current portion of capital lease obligations	182	272
Current deferred tax liabilities	1	17
Total current liabilities	53,382	38,392
LONG-TERM DEBT	14,610	14,579
CAPITAL LEASE OBLIGATIONS	112	155
DEFERRED TAX LIABILITIES	11,848	12,083
OTHER LONG-TERM LIABILITIES	1,243	1,100
Total liabilities	81,195	66,309
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.05 par value; 4,000,000 shares authorized; no issued and outstanding shares		
Common stock, \$0.05 par value; 25,000,000 shares authorized; 13,353,639 and 13,224,696 shares issued and outstanding, respectively	667	661
Additional paid-in capital	54,098	52,451
Retained earnings	91,762	88,210
Other cumulative comprehensive income (loss)	3,032	(6,398)
Total Dynamic Materials Corporation's stockholders' equity	149,559	134,924
Noncontrolling interest	110	160
Total stockholders' equity	149,669	135,084
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 230,864	\$ 201,393

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of ContentsDYNAMIC MATERIALS CORPORATION & SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF OPERATIONSFOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010(Dollars in Thousands, Except Share Data)(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
NET SALES	\$ 54,165	\$ 38,258	\$ 99,740	\$ 68,615
COST OF PRODUCTS SOLD	38,692	29,000	73,964	52,373
Gross profit	15,473	9,258	25,776	16,242
COSTS AND EXPENSES:				
General and administrative expenses	4,194	3,358	7,869	6,503
Selling and distribution expenses	3,911	2,550	7,638	4,871
Amortization of purchased intangible assets	1,471	1,264	2,876	2,537
Total costs and expenses	9,576	7,172	18,383	13,911
INCOME FROM OPERATIONS	5,897	2,086	7,393	2,331
OTHER INCOME (EXPENSE):				
Gain on step acquisition of joint ventures		2,117		2,117
Other income (expense), net	(136)	(110)	(339)	31
Interest expense	(486)	(662)	(896)	(1,806)
Interest income		29	3	65
Equity in earnings of joint ventures		86		255
INCOME BEFORE INCOME TAXES	5,275	3,546	6,161	2,993
INCOME TAX PROVISION	1,418	505	1,565	351
NET INCOME	3,857	3,041	4,596	2,642
Less: Net income (loss) attributable to noncontrolling interest	(11)	5	(23)	17
NET INCOME ATTRIBUTABLE TO DYNAMIC MATERIALS CORPORATION	\$ 3,868	\$ 3,036	\$ 4,619	\$ 2,625
INCOME PER SHARE:				
Basic	\$ 0.29	\$ 0.23	\$ 0.35	\$ 0.20
Diluted	\$ 0.29	\$ 0.23	\$ 0.35	\$ 0.20
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	13,060,456	12,774,316	13,059,782	12,742,589
Diluted	13,070,536			